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INTELLIGENCE REPORT

THE SITUATION IN SOUTH VIETNAM

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DIRECTORATE OF INTELLIGENCE

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence

THE SITUATION IN SOUTH VIETNAM
(29 August - 5 September 1966)

C O N T E N T S

	<u>Section</u>
POLITICAL SITUATION	I
Preparations for constituent assembly election; Viet Cong antielection effort; The Buddhist attitude; Tri Quang; Possible postelection changes in military and police organizations; The "march North" theme.	
REVOLUTIONARY DEVELOPMENT	II
Materials, commodities, and transportation; Security situation during July; Viet Cong defectors (Chieu Hoi).	
ECONOMIC SITUATION	III
Prices; Currency and gold; Credit; Proposed US-GVN meetings on the economy; Labor problems; Views of the Saigon French community; Death sentence for speculation.	
ANNEX: South Vietnam Economic Indicators (graphs): -Free Market Gold and Currency Prices (Monthly and Weekly)	

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I. POLITICAL SITUATION

Political developments in South Vietnam continue to center largely on government efforts to assure a large voter turnout on 11 September in the face of significant Viet Cong attempts to disrupt the election. There are indications that militant Buddhists may press for government concessions in return for an election endorsement.

Among other developments, several reports reflect the possibility of significant changes in the structure of the military establishment after the constituent assembly election. These reports suggest that the influence of police director Colonel Loan is increasing.

Preparations for Constituent Assembly Election

1. The US Embassy has reported that voter awareness of the constituent assembly election on 11 September is high, largely as a result of the most effective public information program the government has conducted to date. The populace is not displaying much enthusiasm perhaps partially because of lackluster campaigning thus far and partially because of the memory of national elections under the Diem regime which resulted in few meaningful improvements. The embassy has pointed out, however, that significant campaigning under way in Saigon and other urban areas is not obvious to Western observers unfamiliar with Vietnamese life. Meanwhile, reports from the provinces indicate that local officials expect a sizable percentage of the electorate to vote and believe that disruptive efforts by the Viet Cong and adherents of the Buddhist Institute will not be very successful.

Viet Cong Antielection Effort

2. Nevertheless, the Viet Cong appear determined to make the election a major confrontation with the government. Their radiobroadcasts are concentrating on antielection propaganda, with approximately half of

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Liberation Radio's broadcast time on 29 August devoted to such diatribes. The levels of Communist terrorism and harassment have not risen appreciably since the beginning of the formal campaign on 26 August. However, Viet Cong radio commentaries have attempted to gain maximum impact from a number of seemingly routine military actions by describing them as a part of the Viet Cong effort to frustrate the election. As election day approaches, the government will carefully deploy regular army troops in addition to the Regional and Popular Forces to counter widely reported Viet Cong plans to attack candidates, voters, and polling places.

The Buddhist Attitude

3. Buddhist Institute militants and Catholic Father Hoang Quynh's "Front of All Religions" have agreed in principle [redacted] to press jointly for two major government concessions in return for a "reasonable endorsement" of the election. One demand is for the release of all political prisoners, including Buddhist participants in the recent "struggle" movement and Catholics associated with the former Diem regime. Spokesmen for the majority of Catholics in the Saigon area also have been pressing the government for a statement of intention regarding Catholic political prisoners prior to the election. The other demand is for public statements by Premier Ky and Chief of State Thieu expressing intent to withdraw from political positions within the next several months. Ky has already made such statements of intent, and Thieu reportedly did so on 2 September, but it is unclear if the Buddhists will regard this as satisfactory.

4. Buddhist moderates, in conversations with US Embassy officers [redacted] have appeared uneasy over the parallel between the antielection stance of the Buddhist Institute and that of the Viet Cong. [redacted] northern refugee Buddhists in the Saigon area and southern Buddhists in the delta may largely ignore the institute's call for a boycott. These attitudes, and other considerations, may have influenced the reported decision of the militant Buddhists to attempt to gain satisfactory government gestures in return for an election

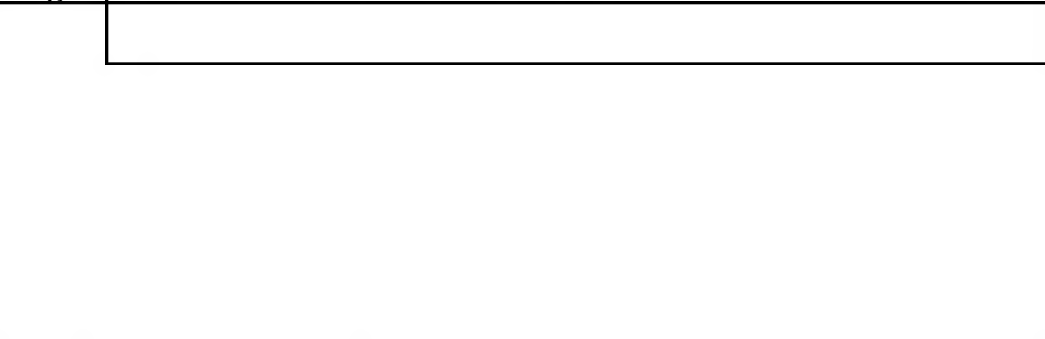
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endorsement. They may have concluded that their boycott, besides linking them indirectly with the Viet Cong, would result in little real political gain regardless of the size of the voter turnout. Additionally, it might deny the Buddhists effective representation should the constituent assembly eventually be transformed into a parliament.

Tri Quang

5. The press has reported that the Buddhist Institute's acting chairman, Thich Thien Hoa, dispatched telegrams on 1 September to President Johnson, UN Secretary General Thant, and international Buddhist groups asking prayers for Tri Quang, whose life was said to be in danger after 85 days of fasting.



6. Tri Quang has by no means publicly committed himself to suicide should the government fail to meet Buddhist demands. It is possible, however, that he may prefer martyrdom to the public derision which might ensue if he were forced to end his fast ignominiously. Quang's death would create some immediate stir among the Buddhist faithful and might encourage many otherwise prepared to vote on 11 September to abstain. It is doubtful that, barring a major election fiasco, Quang's demise would have a long-term impact on the political scene.

Possible Postelection Changes in Military and Police Organizations

7. The Armed Forces Council, composed of all general officers and division commanders, has been meeting in the delta city of Can Tho both to review the status of the election campaign and to discuss

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the reorganization of the police and military structures [REDACTED]

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[REDACTED] with regard to the reorganization, National Police Director Colonel Loan declared on 26 August that there would be a decentralization of the military establishment at both the corps and division levels. Loan also stated that the Regional and Popular Forces--now paramilitary forces--would be dissolved, with the Regional Force being absorbed by the army and the Popular Force by the police. However, final council decisions on the reorganization, as well as on plans for the turnover of the government to civilian authorities next year, reportedly were to await future meetings.

9. [REDACTED]

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[REDACTED] the government is planning to remove Generals Loc and Quang as commanders of II and IV Corps, respectively, after the election. [REDACTED] the ousting of these two generals has frequently been rumored in the past. Discussion by the Armed Forces Council of "decentralization" at the corps level, moreover, would lend substance to the likelihood of early replacement of Loc and Quang who have frequently been accused of exploiting the currently broad authority accruing at the corps level. Ouster of two corps commanders has also previously been reported to be a goal of the so-called "baby Turk" element of middle-grade unit commanders, of whom Colonel Loan is a prominent spokesman. [REDACTED]

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[REDACTED] the projected military reorganization may

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indicate the growing influence of Loan, Ky's former air force deputy and a self-styled ardent reformer.

The "March North" Theme

10. Renewed emphasis on the theme of invading North Vietnam cropped up late last week in South Vietnamese government circles. General Thieu told the press on 2 September that such a course might be necessary to force Hanoi to cease its infiltration of men and materiel into the South. His remarks closely followed a communiqué issued by the advisory Peoples Military Council (PAC) which recommended the same action in the light of North Vietnamese violations of the Demilitarized Zone. The US Embassy reports that the PAC, normally restricted to advising the government on social, economic, and political matters, was specifically requested by Premier Ky to consider this matter. The embassy concludes that Ky used this device to obtain a show of support for his own similar statements quoted in a US publication earlier this summer, which drew unfavorable foreign reaction.

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II. REVOLUTIONARY DEVELOPMENT

Minister of Revolutionary Development General Nguyen Duc Thang has pared down the revolutionary development goals for 1966 by 9 percent in order to maintain a more realistic balance for the remainder of the year. The status of countrywide transportation and commodity distribution problems provides little cause for optimism in the near future, especially in the delta area below Saigon. The over-all security climate for pacification efforts during July was characterized both by a significant increase in Viet Cong and North Vietnamese Army strength and by a decrease in enemy-initiated incidents. Communist defectors numbered 261 during the week of 20-26 August.

Materials, Commodities, and Transportation

1. Since the inception of the re-emphasized pacification effort after the February Honolulu Conference, one of the major problems has been the irregular flow of commodities and the shortage of construction materials within the provinces. During July, the situation was reported as follows for the various regions (civilian term for corps areas):

2. Region I. Problems with the distribution of commodities in all but one province revolved around either the lack of trucks or the lack of parts for them when they broke down. Another factor in the problem has been the preference of the truckers to work for US military and civilian contractors rather than to carry USAID-supported materials.

3. Region II. The shortage of construction supplies generally plagued private commercial construction, resulting in damaging price increases. Cement, reinforcing bars, roofing materials, and lumber were in the shortest supply. With the exception of the area around Qui Nhon city in Binh Dinh Province, road travel and truck transportation outside the various provincial capitals remained extremely hazardous.

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4. Region III. Although officials were unable to discern a pattern affecting the flow of commodities in Region III, they noted isolated cases of inadequate truck facilities and gasoline shortages. In addition, the destruction of a bridge in Long An Province cut off an estimated 180,000 persons from their markets in Saigon.

5. Region IV. The lines of communication in Region IV were further eroded during July because of the priority given to road harassment by the Viet Cong. This method of disrupting assistance to the peasantry has been one of the most successful tactics to date in the enemy's economic warfare strategy. National Highway 4, the major route to the delta from Saigon, has physically deteriorated due to the lack of crushed rock for maintenance. USAID efforts to increase both the delivery and the quantity of crushed rock and sand have so far met with little success.

Security Situation During July

6. I Corps: Although Viet Cong-initiated incidents decreased in number, the influence of a continued buildup of enemy forces, especially in the northernmost provinces, pervaded the atmosphere in I Corps. With the exception of the national priority area in Quang Nam Province, US and ARVN troops were occupied almost entirely with the recently infiltrated North Vietnamese Army 324B Division, the strength of which was estimated at approximately 9,400 men. According to MACV, that division's plan to establish control over the central portion of Quang Tri Province has been effectively thwarted for the time being. However, there are now indications that elements of the division, which retreated back into the demilitarized zone, are returning to Quang Tri. This development, along with recent analyses that the northern I Corps provinces might become a major battlefield area in the near future, means that the environment for the work of the revolutionary development cadres could change adversely. However, the long-term US pacification search-and-destroy operation MACON in Quang Nam Province is opening up land communications for the first time between Da Nang and the An Hoa industrial complex inland.

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7. II Corps: Enemy strength also increased during July in II Corps, despite multibattalion allied search-and-clear operations aimed at large enemy concentrations. Allied units enhanced the pacification-security environment within their operational areas in Kontum, Pleiku, Darlac, Khanh Hoa, and Ninh Thuan provinces. There was no reported change in either enemy-initiated incidents or enemy strength in the national priority area in Binh Dinh Province. However, in Tuyen Duc Province, which has been relatively peaceful in the past, there were two kidnappings and an influx of anti-American, English-language Viet Cong propaganda leaflets.

8. III Corps: There was no significant change reported in enemy strength in III Corps during July. The security environment in the region's national priority area (NRA) reportedly registered some improvement as a result of allied operations during July. Viet Cong incidents there generally declined, with the exception of parts of Gia Dinh Province where enemy-initiated attacks were mounted apparently to take advantage of the propensity of ARVN units to follow an established pattern of activity every day. Outside the NPA, no significant contribution to revolutionary development was reported from the South Vietnamese Armed Forces in III Corps. The pacification atmosphere in Binh Long Province was adversely affected by eight instances of misdirected air and artillery strikes which fell on friendly hamlets or vehicles. Prompt gratuity payments were made to the victims' families. In coastal Binh Tuy Province, a spate of Viet Cong incidents led MACV officials to conclude that an active campaign was under way to thwart government efforts to consolidate the hamlet structure already in secure areas.

9. IV Corps: The over-all security situation in IV Corps, including the national priority area of An Giang Province, did not change significantly in July from the previous months. Enemy strength was carried at approximately the same as the June total. Significant ARVN victories over the Viet Cong in Vinh Long and Kien Hoa provinces during July resulted in a noteworthy decrease in enemy-initiated incidents there.

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Viet Cong Defectors (Chieu Hoi)

10. Communists defected during the week of 20-26 August in the following numbers:

I Corps	21
II Corps	106
III Corps	77
IV Corps	57
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Total	261 (174 military)

The 1966 total through 26 August now stands at 12,106 returnees. There were three North Vietnamese Army soldiers and 13 cadre-level Viet Cong among last week's group of defectors. In their continuing effort to improve the Chieu Hoi program, US and GVN officials recently indicated some of the problems to which they will devote priority attention. Included among them are the provision of adequate medical help, the expansion of vocational training, and the provision of more employment opportunities for the returnees.

III. ECONOMIC SITUATION

The economy continues to show signs of stability. Prices of both domestic and imported commodities were slightly lower or stable in the week ending 22 August. The USAID retail price index was 1 percent below the previous week. Free market rates for dollars and gold rose slightly but are still well below the rates that prevailed during the past two months. Minister of National Economy Thanh has confirmed in writing his earlier verbal agreement to create a joint US-GVN economic discussion group and rice study group and has proposed topics of discussion for the initial meetings of both groups.

In spite of bankers' arguments for an increase in bank financing of business, Governor Hanh of the National Bank of Vietnam insists on a restriction of credit during the remainder of 1966. The possibility of another major labor dispute has arisen because of plans by RMK-BRJ, the American construction consortium, to reduce its work force by as much as 25 percent. South Vietnam's special court for economic crimes has sentenced a Vietnamese businessman to death for speculation in imported refrigerators.

Prices

1. Retail prices continued to decline in the week ending 22 August. The over-all USAID retail price index was 1 percent below the previous week. Prices of most food and nonfood items were slightly lower or stable. The food index declined 2 percent, primarily because of lower prices for fish, pork bellies, and two varieties of rice. Between 22 and 26 August, however, the price of pork rose moderately in spite of increased arrivals of hogs at the Saigon slaughterhouse. As a result of higher pork prices, fish and other meat also rose. Prices of nonfood items in the week ending 22 August were steady with the exception of charcoal and calico, both of which declined.

III-1

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2. Prices of imported commodities generally followed a similar pattern, with most items either steady or slightly lower. The only exceptions were condensed milk and sugar, the prices of which rose apparently because of difficulties in distribution rather than actual shortages. Most iron and steel products were lower as were chemicals and newsprint.

Currency and Gold

3. Free market rates for dollars and gold rose slightly above the new 1966 lows reached on 19 August, but are still well below the rate that prevailed during the past two months. The price of dollars rose by two piasters on 22 August to 160 piasters per dollar, whereas the price of gold was 225 piasters, or 12 piasters above the rate on 19 August. MPC (scrip) rose six piasters to the official rate of 118. Between 22 and 26 August, the price of dollars and gold moved up again to 172 and 242 piasters, respectively. These increases apparently resulted partly from market reaction to the extremely low levels reached in the previous week and partly from an anticipation of disturbances in connection with the forthcoming elections on 11 September. (Graphics on monthly and weekly free market gold and currency prices are included in the annex).

Credit

4. More details have become available on the tight credit situation reported last week. On 21 August, Governor Hanh of the National Bank of Vietnam (NBVN) held a meeting with members of the banking community and informed them that the increase in bank financing of business during the second half of 1966 would be limited to 4 billion piasters. Hanh noted that he was disturbed by the increase of 2 billion piasters in bank financing which has already taken place since the devaluation in June. Estimates prepared by the International Monetary Fund (IMF) had allowed for an increase of only 3 billion piasters for the second half of 1966.

5. The bankers requested that no such ceiling be put on financing of imports and that redicount ceilings with the NBVN be raised to cover an estimated

III-2

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maximum need for 10 billion piasters in new import credit. The US Embassy estimates that the need for new import credit could range anywhere between 8 and 15 billion piasters depending on assumptions about import arrivals and on the terms of the loans. Governor Hanh was not impressed with the bankers' contention that, since new import loans are offset by simultaneous counterpart deposits which leave the money supply unaffected, import financing is not inflationary. In reply to the bankers' argument that importers may not apply for new import licenses if credit is unavailable, Hanh responded that importers can liquidate inventories, cash in their gold holdings, or recall their capital sent abroad. While it is difficult to evaluate Hanh's argument--mainly because of a lack of information on the current level of inventories--the US Embassy comments that Hanh may have other reasons, such as a commitment to the IMF, for restricting credit.

6. As a result of Hanh's position, the bankers subsequently agreed among themselves to curtail credit expansion by a series of measures such as increasing the advance deposit required on import letters of credit and refusing loans for anything other than imports. A good test of actual credit needs will be the rate of import licensing during the next few weeks.

Proposed US-GVN Meetings on the Economy

7. On 22 August, Minister of Economy Thanh sent Deputy Ambassador Porter two letters confirming an earlier verbal agreement to create a joint US-GVN economic discussion group and a rice study group. Thanh suggested in these letters that the first meeting of the economic group be held on 2 September to discuss: problems at the Saigon port and other ports; the defense, maintenance, and repair of strategic routes of communications; procedural difficulties in the use of US commercial aid funds; and assistance for the production of corn and pork, and for a live-stock feed factory. With regard to rice, Thanh has suggested that the newly formed rice study group discuss methods to increase production, estimates of rice imports during 1967, and the harvest, storage, and sale of rice.

III-3

Labor Problems

8. Since the settlement a month ago of the major strike threat against RMK-BRJ (the American construction consortium in South Vietnam), there have been no large-scale walkouts. A series of small strikes has continued, however, primarily because workers feel that wages are inadequate in view of the high cost of living. The possibility of another major labor dispute has now arisen because of plans by RMK-BRJ to cut back its total work force--which consists of Americans, Vietnamese, and third-country nationals--by as much as 25 percent during the next two months. RMK-BRJ reportedly plans to have an over-all reduction of 12.5 percent in motion by 1 September and another 12.5 percent by 1 October. This would result in a total reduction of roughly 13,000 employees, of whom 10,000 probably would be Vietnamese. Although no final decisions on this work force reduction have yet been made, rumors already have begun to spread among Vietnamese workers.

9. According to RMK-BRJ and the US Navy office supervising the consortium, the layoffs are necessary because orders for construction have not measured up to the immense construction capability established by RMK-BRJ in South Vietnam. Since no additional orders are expected before the beginning of 1967, the consortium feels that the only alternative is to slash the monthly cash output of \$14 million for payroll and related costs.

10. The initial reaction of the US Embassy is that many of the Vietnamese workers can be re-employed over a relatively short period of time by other US employers, depending in part on the geographical spread of the discharges. Nevertheless, the layoffs will have repercussions in this pre-election period. The US Embassy is attempting to persuade RMK-BRJ to cushion the shock by improving liaison with other US employers so that the discharged Vietnamese workers can be given first priority elsewhere. It is also urging the consortium to inform employee representatives of the reasons for the discharges and to assure them that RMK-BRJ will do its best to help the employees find other employment. A suggestion by the US labor attaché that the number of discharges be

III-4

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lessened by reducing the present ten-hour day to eight hours was rejected by RMK-BRJ on the grounds that it is economically unfeasible and that at one site, where an eight-hour schedule was introduced, the Vietnamese workers promptly went on strike.

Views of the Saigon French Community

11. A US Embassy survey of the Saigon French community disclosed a widely held belief that recent GVN economic measures have been effective in halting the serious decline in the economic situation. French officials and businessmen noted that some prices of commodities are falling and black market rates have fallen spectacularly. Many felt that GVN success in this area was due to the efforts of Minister of Economy Thanh. Although there were some complaints about specific situations, such as delays in getting non-military goods unloaded at the Saigon port, there appeared to be no indication of any organized French effort to criticize the recent economic measures or to predict a further serious deterioration in the economic situation.

Death Sentence for Speculation

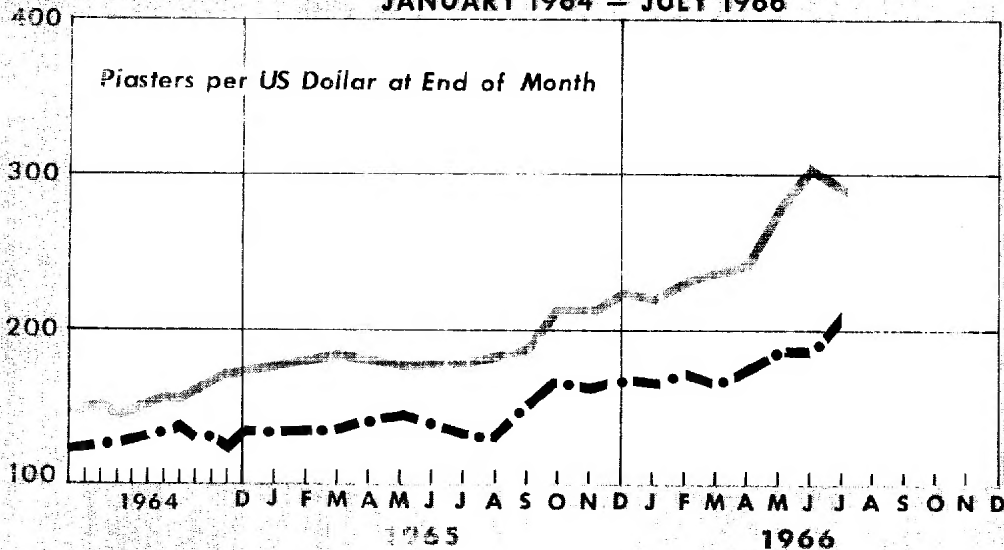
12. On 29 August, South Vietnam's special court for economic crimes sentenced a Vietnamese businessman to death for speculation in imported refrigerators. The accused was tried in absentia and a warrant has been issued for his arrest. The trial and subsequent execution of a local Chinese merchant by this same court last March resulted in a marked slowdown of business activity in the important Chinese segment of the Saigon business community.

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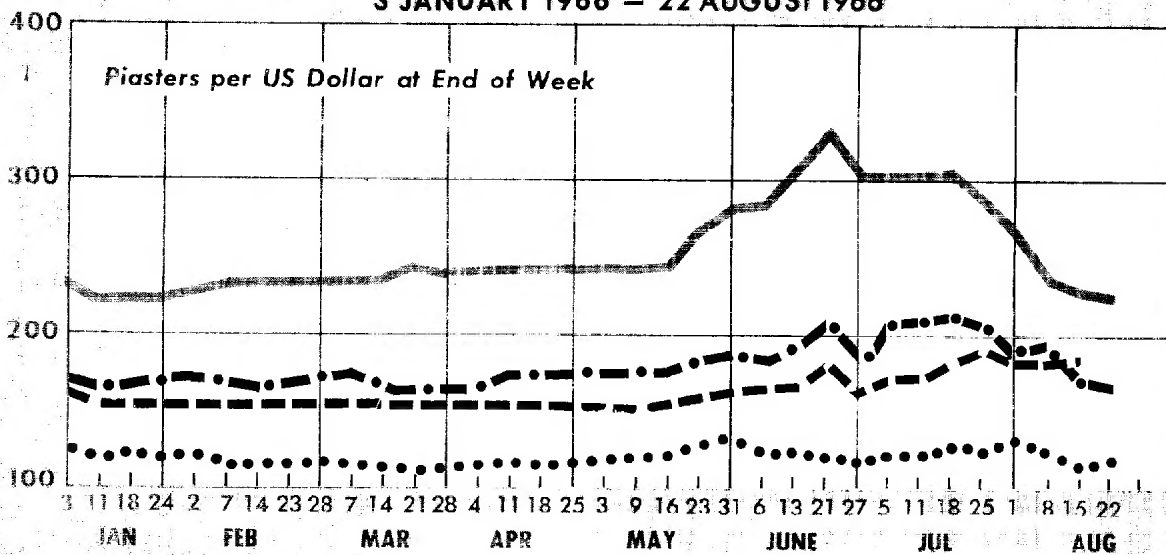
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SOUTH VIETNAM ECONOMIC INDICATORS

Monthly Free Market Gold and Currency Prices
JANUARY 1964 - JULY 1966



Weekly Free Market Gold and Currency Prices
3 JANUARY 1966 - 22 AUGUST 1966



- GOLD (Saigon) - Piaster price per US dollar of gold calculated on the basis of gold leaf as worth \$35 per troy ounce.
- . - US \$10 GREEN (Saigon)
- - - PIASTER-DOLLAR CROSS RATE - Piaster-dollar exchange rate in Hong Kong calculated by reference to the exchange rates of these two currencies to the Hong Kong dollar.
- US \$10 MPC (Saigon) - Military Payment Certificates (scrip).

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